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IMPLICATIONS FARM PLANNING HAS FOR LENDERS

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Let me say first of all that farm planning will have only a limited influence on loan agencies or anyone else for some time to come. Also that it may become quite important. There will be few plans without credit and finance being part of them. The more loan agencies know about its possibilities and limitations the better.

Farm planning will be a highly individual matter for most of us in the extension agencies here in New England, and it will probably continue on that basis for an indefinite period. Perhaps we may eventually get to the point where we can carry it on a group basis, with wider participation, as has been done in some places, but certainly not until we agents have more experience with methods, and until farm families have more experience with its possibilities. For the present at least, we will have to approach each farm for what it is, a different combination of size, location, soil type, farm structures, capital, and, most of all, with its highly individual farm family.

The development of a plan on any farm is a matter of making use of these resources on the basis of gradual change and variations that arise from day to day, but always working toward an ultimate goal acceptable to the farm family.

Farm planning or, as we prefer to call it in Vermont, "Farm and Home Business Counseling" is one of the tools that we have used relatively little up to the present time, because it calls for more hours of work on one individual farm than we have been able to spare in the past. With the addition of a few new agents in counties to relieve the present workload, we are counting for the future that much of the additional time made available will be directed to Farm and Home Business Counseling. I use the designation "Farm and Home Business Counseling" because we think it more accurate and because it draws the farm and the home into a common problem and a common program. We are not presenting a plan to the family and saying "This is it." We are counseling the family as to the best course for them to follow.

Our thinking is that planning for the home is equally important with planning for the farm as separate from the home. It is expected that home demonstration agents will take an equal part with county agricultural agents in Farm and Home Business Counseling. It is important that the farmer's wife and family understand the cost of home improvements and it is also equally important that the farm operator understand the need for and the cost of home improvements and higher living standards and see them as part of a whole plan. If the plan can be made a family plan, its likelihood of success is vastly improved. We all know that in many farm families as elsewhere, there is need for more cooperation and common goal within the family. If the family program is worked out, the active force in bringing it to success will

as often be that of the wife as of the husband. Harmony and progress within the family depends on a mutual understanding of the problem and on having a common goal. Many homes do have it now, others will be helped to get it, if Farm and Home Business Counseling is properly presented. Wherever there are credit agencies involved in any farm operation, this should make their interests more secure.

Of course, from the inception of Extension, we have done variations of farm planning or counseling, but usually from the standpoint of changing individual practices, and not from the standpoint of making a complete study of the individual farm operation and ending up with a longer range program for the farm, mutually acceptable to the farm family and to the person doing the counseling. The emphasis is on a balance between the desire of the farm family and the best use of the resources which usually includes credit. To get close to the facts and come up with a rational program requires a combination of analysis and conclusion that is time consuming.

What I feel to be the really essential element of farm and home business counseling is the analysis and the thinking through with the farm family of the possibilities of their particular unit. All too often in the past we have stopped with the simple practice change, as perhaps farm financing has stopped with the question of loan security rather than the question of what shall be the course of future progress on the farm resulting from use of the loan.

In New England, the studies made under the John D. Black project, indicated a need of additional investments on most of the farms for which that project worked out plans, and that to serve the interests of the plan, the average investment needs were about $5,000 per farm on the 1946 basis of values. It was also indicated in this study that much of the capital needs were not for fixed investments but were for production purposes. It has sometimes been difficult to realize how fast farming in New England has changed from the need of capital to get control of the real estate to the added more important need today of capital for operating purposes. It is also much more of a continuing need than is the real estate investment.

Labor is not interchangeable with capital today on our farms to the extent that it was 20 or 30 years ago. Our capital needs per farm have increased, our labor needs per farm or per unit of production have very greatly decreased. I do feel that the first requirement in farm operation is still what was presented to us in a farm management course that I took in college and that is "the ability to get work done." A second requirement is to have the farm operation based on a unit that has the physical resources to provide a good living for the farm family. A third has to do with the resources of capital and labor, and a fourth might be farm planning, in that it provides for a program for evaluating all resources, and outlining the procedure that over a period of years can make use of these resources.

We have accumulated a few experiences in Vermont that indicate some of the situations under which loaning agencies might find their problems simplified because of Farm and Home Business Counseling. Additional loans are often asked for by farm families even though the operation of the farm may not justify it. It is to the borrower a simple

solution to an immediate pressing problem rather than part of a considered long-time program.

A common situation of which any extension agent could cite many specific examples is that of the farm operator who has become sold on some particular detail of farm operation. He may be exceptionally able in the handling of the dairy, or the growing of crops, or in the operation of machinery, but he under-estimates the need for balance between the elements of farm operation and looks to increased capital loans as a means of tiding them over what they consider a temporary situation. Farm and home business counseling would show this to be a chronic unbalanced operation. Additional credit is often necessary to bring about a better balance.

Another all too common situation in Vermont at least, is that of some successful business or professional man and his wife who see retirement to quiet Vermont and the operation of a farm as a means of getting a retirement income. Too often they find that their farming in Vermont, as anywhere else, costs money, and their credit needs become very much more important than they anticipated. Their tangible property may warrant increased loans, but these can intensify rather than solve their problem. An analysis of the whole situation as made in business counseling would bring them to a much quicker realization of the real facts of life, and might help a loaning agency to the same conclusion. They need to be loaned into security, not into bankruptcy.

Another very important way in which farm planning can get results is in fitting the family to the size and type of farm. Both the Dr. Black project, and personal experience, show how important it is for operators to consider the limitation and possibilities of the size of the farm business, the type of soil, the quality of livestock and similar details. Analysis leads farm families to consider these things more closely, and even to change to a new location with increased possibilities before too many productive years are lost. I could cite examples of where farm planning has brought this about.

Perhaps I am on this program today because in my county we have had an example - a particularly striking one - of the possibilities of well-considered plans for farms. To be sure, the example is a limited one and it has had a great deal of publicity already, perhaps too much publicity. Because it is rather striking and because it has plenty of implications for loan agencies, I am going to tell you about it.

Dr. John Black of Harvard, as many of you know, set up a trial operation in farm planning in which the Hood Foundation, the Agricultural College, Federal agencies and experiment stations of New England were participants. Under this project, detailed farm planswere worked out with the operators of some 241 farms in New England between 1946 and 1949. The plans were developed by Dr. R. G. Wheeler and his associates, acceptable to the farm operators. Incidentally, these 241 farm plans showed need for approximately $6,000 average increased investment to enable them to reach their goal. The progress of this trial operation merits your study, but I am not going to say any more about the New England-wide operation here.

The main thing is that 26 of these farms were in Franklin County. The thing that sets the Franklin County farms off from the group and makes them important here was that the Vermont Experiment Station took standard farm records on these 26 farms in 1946, at the time the farm plans were worked out by Dr. Wheeler and his associates. The Experiment Station also took records on a very similar group of farms in another county. The farms in the other county did not have plans worked out for them. Otherwise, there was little to choose between them. Then in 1952 farm records were again taken on the 23 farms remaining of the 26 in Franklin County and on the farms without plans in the other county. From all these, there were 12 farms in each group that were identical, so far as farm and farm operators can be identical.

Dr. Ray Tremblay of the Experiment Station made an analysis of these 12 pairs that showed that while all had made some progress, those that had farm planning guidance had made much more progress. The 12 pairs of farmers in 1946 had the same labor income but by 1952 - and using the 1952 income adjusted to the 1946 level - the group with planning guidance had increased their income 80 percent. Those without planning guidance had increased their income 3 percent. I think I can best sum it up by quoting from Dr. Tremblay's study. "A comparison of the two groups of farms shows that the farmers in each group have made some strides forward during the 6-year period. The farmers who had farm planning guidance did nothing spectacular. However, they made their improvements right across the board which resulted in a substantial increase in their labor income." Those with planning guidance had increased the number of cows per farm, while those without decreased. They had increased production per cow 20 percent, those without planning increased 10 percent. Those with planning had increased production per man 25 percent, those without planning had not increased the work done per man. Here again there is material for much discussion and I am sure it would interest you but, as I said earlier, perhaps this is too small an example for general application, but the comparisons certainly indicate that those with the planning guidance were a superior credit risk.

Each one who reads over the results of these studies would no doubt give more or less importance to different items. My own slant on it is that a great deal of credit for the progress of the group with planning should go to these families or at least the man himself, having thought through with the one doing the counseling who presented alternate plans the problem and possibilities of the whole farm. I lay great value on analysis and talking out with the farm family their aims and their resources.

It does appear that in gross total volume of credit extended, credit agencies may have made adequate advances to agriculture. There is a question if these loans were made as operating loans that would enable the borrower to organize his production, or if they were made as capital loans that may well have been safely secured by the fixed values of the property. They could be both. Any loan, of course, must be based on adequate security, but it seems to me that the security that might well be the best guarantee of repayment, could be a reasonably definite plan of operation in the hands of a farmer who has demonstrated his competence. In the long run, profitable loans are

those put into production use, not those tied up in real estate and fixtures, even though secured by them.

Dairy farming as practiced in so much of New England, is a reasonably standardized balance of size of business, quality of production, labor efficiency, and capital investment. When any one or more of these is out of line with accepted standards, we can expect the operating family to be in more or less difficulty. Counseling needs to be sufficiently thorough so that the balance of these items is clear to the operators, and so that they will do something about it. Any plan that is drawn up for a farm is subject to change due to sudden changes in conditions off the farm. However, I believe that if the farm family has thought their situation through step by step, they will be well prepared to meet unforeseen changes.

It is, of course, understood by everyone, or should be, that Farm and Home Business Counseling is a strictly confidential matter between us of the Extension Service and the farm family. Anything that comes out of it on any individual farm and home set-up will only come from the farm family.

Requests for counseling must come from the farm family. It may come from them because they believe it has value, or because some loan agency or other interested parties have recommended its value to them.

To sum up, Farm and Home Business Counseling is not entirely new to Extension agents. What is new is the setting it up as a separate project and having assurance of some time to devote to it. There is a great need for farm families to think through the relationships between the home and the farm business, as well as between the several elements that go to make up the farm business. If this is done, I would certainly expect that farmer to be a much better credit risk than many farmers with more equity. The results with the limited number in the management project in my county certainly indicate a very real value for farm plans that have been thought through with the farm family and that have their understanding and acceptance. They indicate that such farms are excellent credit risks.

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